

SUMMARY

R20AWS Breakout Session

BLENDED FINANCE

New Instruments to Facilitate Infrastructure Projects at the Sub-National Level

Background

We know that to keep pace with population growth, migration and urbanization trends in a way that mitigates climate risks, improves living standards and delivers long-term sustainable growth, an increase in sustainable infrastructure investment is needed. This need is particularly high at the city, state and regional levels, where mid-size projects offer an unprecedented opportunity to maximize development impact. And yet, financing for such projects remains limited.

The breakout session was organized by R20, the University of Zurich and the USC Schwarzenegger Institute, in partnership with the Climate Infrastructure Partnership. It brought together a broad range of stakeholder groups to discuss ways to direct more capitals towards green projects. The session also served as the kick-off to a wider research process that will be led by the University of Zurich over the coming months. As explained by its Vice-President, Professor Christian Schwarzenegger, the objective is to connect scientific analysis with practice to provide a better understanding of the barriers to deploying sustainable infrastructure at the sub-national level, and of the role of blended finance in addressing these. "Arnold said we need more climate action heroes. As scientists, we want to provide the tools for these heroes to make change happen" he concluded.

Outcomes

Thirteen speakers, solicited for their unique perspectives on implementation of sustainable infrastructure, on the Paris Climate Objectives and on the SDGs, participated in the discussion and provided key insights on:

- The investment potential for mid-size infrastructure projects at the sub-national level
- The SDG impact potential of such projects
- The role of sound impact measurement in mobilizing further support
- The role blended finance can play in accelerating the financing of project development and implementation
- The obstacles – institutional, technical and financial – met in blended finance today.

Market potential for mid-size projects

Essentially, the breakout session showed the market potential for mid-size sustainable infrastructure is there. Local authorities from around the world are looking to build such projects, but access to finance remains difficult. "Most of our projects are small or mid-sized and they are struggling to access finance because, for institutional investors, projects under 50 million euros are usually not being considered for investment" (Eszter Mogyorósy, Climate Finance Manager, ICLEI). The few mid-size projects that do seem to be predominantly financed by DFIs, who, since the global crisis, have somehow filled the gap left by commercial banks. In that context, it becomes abundantly clear that creating new sources of capital investments is critical, and blended finance seems to offer a great solution. "there is a huge investor appetite for blended finance and when it works, blended finance works beautifully well because it strengthens the fiscal position of sub-national governments and improves the quality of the services" (Yannick Glemarec, CEO, Green Climate Fund).

Requirements to accelerate innovative financing models

However, panelists agreed that innovation is still required for blended finance models to really accelerate the financing of projects at the sub-national level. Adopting a portfolio approach, rather than the traditional project by project approach, or associating blended finance with a side vehicle to address the technical assistance and capacity (technical, institutional, regulatory) issues, were some of the recommendations made in panel 2. Participants also highlighted the need, and critical role, of consistent and sound impact measurement in stimulating the investment community to engage more actively in sustainable investments.

“If you don’t have the money, you have nothing”

The breakout session would not have been totally complete without a surprise visit from Arnold Schwarzenegger. “This session is particularly important because, as I have often said, if you don't have the money, you have nothing” he explained as he joined the stage after sitting in the audience for panel 1. Connecting project holders with investors is key here he added. “I am normally the terminator but here I am talking as the connectator. Because to me connecting is the most important thing”.